

Transient Advantage

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Strategy is stuck. For too long the business world has been obsessed with the notion of building a sustainable competitive advantage. That idea is at the core of most strategy textbooks; it forms the basis of Warren Buffett's investment strategy; it's central to the success of companies on the "most admired" lists. I'm not arguing that it's a bad idea—obviously, it's marvelous to compete in a way that others can't imitate. And even today there are companies that create a strong position and defend it for extended periods of time—firms such as GE, IKEA, Unilever, Tsingtao Brewery, and Swiss Re. But it's now rare for a company to maintain a truly lasting advantage. Competitors and customers have become too unpredictable, and industries too amorphous. The forces at work here are familiar: the digital revolution, a "flat" world, fewer barriers to entry, globalization.

Strategy is still useful in turbulent industries like consumer electronics, fast-moving consumer goods, television, publishing, photography, and...well, you get the idea. Leaders in these businesses can compete effectively—but not by sticking to the same old playbook. In a world where a competitive advantage often evaporates in less than a year, companies can't afford to spend months at a time crafting a single long-term strategy. To stay ahead, they need to constantly start new strategic initiatives, building and exploiting many transient competitive advantages at once. Though individually temporary, these advantages, as a portfolio, can keep companies in the lead over the long run. Firms that have figured this out—such as Milliken & Company, a U.S.-based textiles and chemicals company; Cognizant, a global IT services company; and Brambles, a logistics company based in Australia—have abandoned the assumption that stability in business is the norm. They don't even think it should be a goal. Instead, they work to spark continuous change, avoiding dangerous rigidity. They view strategy differently—as more fluid, more customer-centric, less industry-bound. And the ways they formulate it—the lens they

use to define the competitive playing field, their methods for evaluating new business opportunities, their approach to innovation—are different as well.

I'm hardly the first person to write about how fast-moving competition changes strategy; indeed, I'm building on the work of Ian MacMillan (a longtime coauthor), Kathleen Eisenhardt, Yves Doz, George Stalk, Mikko Kosonen, Richard D'Aveni, Paul Nunes, and others. However, the thinking in this area—and the reality on the ground—has reached an inflection point. The field of strategy needs to acknowledge what a multitude of practitioners already know: Sustainable competitive advantage is now the exception, not the rule. Transient advantage is the new normal.

The Anatomy of a Transient Advantage

Any competitive advantage—whether it lasts two seasons or two decades—goes through the same life cycle. (See “The Wave of Transient Advantage.”) But when advantages are fleeting, firms must rotate through the cycle much more quickly and more often, so they need a deeper understanding of the early and late stages than they would if they were able to maintain one strong position for many years.

A competitive advantage begins with a launch process, in which the organization identifies an opportunity and mobilizes resources to capitalize on it. In this phase a company needs people who are capable of filling in blank sheets of paper with ideas, who are comfortable with experimentation and iteration, and who probably get bored with the kind of structure required to manage a large, complex organization.

In the next phase, ramp up, the business idea is brought to scale. This period calls for people who can assemble the right resources at the right time with the right quality and deliver on the promise of the idea.

Then, if a firm is fortunate, it begins a period of exploitation, in which it captures profits and share, and forces competitors to react. At this point a company needs people who are good at M&A, analytical decision making,

and efficiency. Traditional established companies have plenty of talent with this skill set.

Often, the very success of the initiative spawns competition, weakening the advantage. So the firm has to reconfigure what it's doing to keep the advantage fresh. For reconfigurations, a firm needs people who aren't afraid to radically rethink business models or resources.

In some cases the advantage is completely eroded, compelling the company to begin a disengagement process in which resources are extracted and reallocated to the next-generation advantage. To manage this process, you need people who can be candid and tough-minded and can make emotionally difficult decisions.

For sensible reasons, companies with any degree of maturity tend to be oriented toward the exploitation phase of the life cycle. But as I've suggested, they need different skills, metrics, and people to manage the tasks inherent in each stage of an advantage's development. And if they're creating a pipeline of competitive advantages, the challenge is even more complex, because they'll need to orchestrate many activities that are inconsistent with one another.

Milliken & Company is a fascinating example of an organization that managed to overcome the competitive forces that annihilated its industry (albeit over a longer time period than some companies today will be granted). By 1991 virtually all of Milliken's traditional competitors had vanished, victims of a surge in global competition that moved the entire business of textile manufacturing to Asia. In Milliken, one sees very clearly the pattern of entering new, more promising arenas while disengaging from older, exhausted ones. Ultimately, the company exited most of its textile lines, but it did not do so suddenly. It gradually shut down American plants, starting in the 1980s and continuing through 2009. (Every effort was made, as best I can tell, to reallocate workers who might have suffered as a result.) At the same time the company was investing in international expansion, new technologies, and new markets, including forays into new

arenas to which its capabilities provided access. As a result, a company that had been largely focused on textiles and chemicals through the 1960s, and advanced materials and flameproof products through the 1990s, had become a leader in specialty materials and high-IP specialty chemicals by the 2000s.

Facing the Brutal Truth

In a world that values exploitation, people on the front lines are rarely rewarded for telling powerful senior executives that a competitive advantage is fading away. Better to shore up an existing advantage for as long as possible, until the pain becomes so obvious that there is no choice. That's what happened at IBM, Sony, Nokia, Kodak, and a host of other firms that got themselves into terrible trouble, despite ample early warnings from those working with customers.

To compete in a transient-advantage economy, you must be willing to honestly assess whether current advantages are at risk. Ask yourself which of these statements is true of your company:

- I don't buy my own company's products or services.
- We're investing at the same or higher levels and not getting better margins or growth in return.
- Customers are finding cheaper or simpler solutions to be "good enough."
- Competition is emerging from places we didn't expect.
- Customers are no longer excited about what we have to offer.
- We're not considered a top place to work by the people we'd like to hire.
- Some of our very best people are leaving.
- Our stock is perpetually undervalued.

If you nodded in agreement with four or more of these, that's a clear warning that you may be facing imminent erosion.

But it isn't enough to recognize a problem. You also have to abandon many of the traditional notions about competitive strategy that will exacerbate the challenge of strategy reinvention.

Seven Dangerous Misconceptions

Most executives working in a high-velocity setting know perfectly well that they need to change their mode of operation. Often, though, deeply embedded assumptions can lead companies into traps. Here are the ones I see most often.

The first-mover trap. This is the belief that being first to market and owning assets create a sustainable position. In some businesses—like aircraft engines or mining—that's still true. But in most industries a first-mover advantage doesn't last.

The superiority trap. Almost any early-stage technology, process, or product won't be as effective as something that's been honed and polished for years. Because of that disparity, many companies don't see the need to invest in improving their established offerings—until the upstart innovations mature, by which time it's often too late for the incumbents.

The quality trap. Many businesses in exploit mode stick with a level of quality higher than customers are prepared to pay for. When a cheaper, simpler offer is good enough, customers will abandon the incumbent.

The hostage-resources trap. In most companies, executives running big, profitable businesses get to call the shots. These people have no incentive to shift resources to new ventures. I remember holding a Nokia product that was remarkably similar to today's iPad—in about 2004. It hooked up to the internet, accessed web pages, and even had a rudimentary app constellation. Why did Nokia never capitalize on this groundbreaking

innovation? Because the company's emphasis was on mass-market phones, and resource allocation decisions were made accordingly.

The white-space trap. When I ask executives about the biggest barriers to innovation, I often hear, "Well, these things fall between the cracks of our organizational structure." When opportunities don't fit their structure, firms often simply forgo them instead of making the effort to reorganize. For instance, a product manufacturer might pass up potentially profitable moves into services because they require coordination of activities along a customer's experience, rather than by product line.

The empire-building trap. In a lot of companies, the more assets and employees you manage, the better. This system promotes hoarding, bureaucracy building, and fierce defense of the status quo; it inhibits experimentation, iterative learning, and risk taking. And it causes employees who like to do new things to leave.

The sporadic-innovation trap. Many companies do not have a system for creating a pipeline of new advantages. As a result, innovation is an on-again, off-again process that is driven by individuals, making it extraordinarily vulnerable to swings in the business cycle.

The assessment "Is Your Company Prepared for the Transient-Advantage Economy?" will give you a sense of whether your organization is vulnerable to these traps.